

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 SP-02 STR-07 TRSE-00 LAB-04
SIL-01 OMB-01 EA-12 IO-14 NEA-11 ICA-20 OPIC-06
AGRE-00 SS-15 MMO-04 L-03 H-02 PA-02 NSC-05 /147 W
-----125873 261619Z /43

R 261320Z MAY 78
FM AMEMBASSY THE HAGUE
TO SECSTATE WASHDC 2710
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS

UNCLAS SECTION 1 OF 2 THE HAGUE 2911

USEC, USOECD, ALSO FOR EMBASSY

DEPT. PLEASE PASS TREASURY AND COMMERCE

E.O. 11652: N/A
TAGS: EINV, ECON, NL
SUBJ: THE DUTCH GOVERNMENT GETS THE POWER TO STIMULATE PRIVATE
INVESTMENTS

REF: A) 77 THE HAGUE 418; B) 77 THE HAGUE 1067

1. SUMMARY. ONE OF THE MAJOR PIECES OF DUTCH DOMESTIC
ECONOMIC LEGISLATION OF RECENT YEARS, THE INVESTMENT ACCOUNT
BILL, EASILY PASSED THE LOWER HOUSE OF PARLIAMENT MAY 23
AND APPARENTLY BECAME EFFECTIVE IMMEDIATELY. THE ACT'S 13
BILLION GUILDERS (\$5.8 BILLION DOLLARS) OVER THE NEXT FOUR
YEARS TO STIMULATE PRIVATE INVESTMENT SHOULD ENABLE THE ECON-
OMY TO MEET PROJECTED ESTIMATES OF THREE PERCENT GROWTH
IN GNP THIS YEAR. END SUMMARY.

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2. ON MAY 23, THE SECOND CHAMBER OF PARLIAMENT APPROVED
BY A LARGE MAJORITY THE INVESTMENT ACCOUNT BILL (WIR),
A PACKAGE OF DOMESTIC INVESTMENT SUBSIDIES AND PREMIUMS.
FIRST INTRODUCED IN 1977 (REF. B, PARA 5), THE WIR WAS
DELAYED BY POLITICAL CONTROVERSY AND OBJECTIONS RAISED
BY THE EUROPEAN COMMISSION CONCERNING CONFORMITY TO RE-

QUIREMENTS IN ARTICLE 92 OF THE TREATY OF ROME. THE GOVERNMENT BELIEVES THAT THE WIR IN ITS NEW FORM WILL MEET THESE OBJECTIONS.

2. THE WIR HAS TWO PRIMARY GOALS: FIRST, THE STIMULATION OF COUNTRY-WIDE INVESTMENT TO SPUR ECONOMIC GROWTH AND REDUCE UNEMPLOYMENT AND SECOND, THE ENCOURAGEMENT OF INVESTMENT IN THE LESS DEVELOPED AREAS OF THE COUNTRY. OVERALL INVESTMENT STIMULATION IS TO BE ACCOMPLISHED THROUGH DISBURSEMENT OF 13 BILLION GULDERS (ROUGHLY \$5.8 BILLION DOLLARS) FROM 1978 TO 1981 TO ENCOURAGE CORPORATE INVESTMENT AND CREATE 110,000 JOBS. THE DISBURSEMENT MECHANISM WILL BE SEVERAL INVESTMENT PREMIUMS (SEE ALSO REFTELS):

A) BASIC PREMIUM. A TAX CREDIT EQUAL TO 23 PERCENT OF INVESTMENT COST FOR BUILDINGS (EXCLUDING RESIDENTIAL CONSTRUCTION), 13 PERCENT FOR FIXED INSTALLATIONS IN OPEN AIR, 15 PERCENT FOR SEAGOING VESSELS, AND 11 PERCENT FOR AIRCRAFT AND OTHER INVESTMENT GOODS (MACHINERY AND EQUIPMENT).

B) SMALL-SCALE PREMIUM. A TAX CREDIT IN ADDITION TO BASIC PREMIUM FOR INVESTMENTS UP TO 800,000 GULDERS. THE ACTUAL AMOUNT DECREASES AS INVESTMENT RISES, FROM A MAXIMUM CREDIT OF SIX PERCENT TO A MINIMUM OF 0.25 PERCENT.

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C) RELOCATION PREMIUM. AN ADDITIONAL TAX CREDIT OF 15 PERCENT FOR INDUSTRIAL PROPERTY AND 7.5 PERCENT FOR OPEN AIR INSTALLATIONS, TO BE GRANTED FOR RELOCATION FROM A REGION WHERE SIR (SEE BELOW) APPLIES TO A REGION DESIGNATED AS A DEVELOPMENT AREA.

D) SPECIAL REGIONAL PREMIUM. AN ADDITIONAL TAX CREDIT OF 20 PERCENT FOR INDUSTRIAL PROPERTY AND 10 PERCENT FOR OPEN AIR INSTALLATIONS FOR EXPANSION OF EXISTING BUSINESS IN THE FAR NORTH AND SOUTH OF THE COUNTRY.

E) LARGE PROJECT PREMIUM. A JOB CREATION PREMIUM FOR INVESTMENTS OF AT LEAST 30 MILLION GULDERS, OF WHICH AT LEAST FOUR MILLION GULDERS ARE INDUSTRIAL BUILDINGS AND OPEN AIR INSTALLATIONS, TO CONSIST OF 15,000 GULDERS PER JOB UP TO A MAXIMUM OF FOUR PERCENT OF THE TOTAL INVESTMENT. (A MAXIMUM OF 50 PERCENT OF INVESTMENT COSTS MAY BE OFFSET WITH TAX CREDITS OBTAINED THROUGH THE BASIC AND SPECIAL WIR PREMIUMS.)

4. TO DISCOURAGE INVESTMENT IN ALREADY CROWDED AREAS OF

THE COUNTRY (ESSENTIALLY THE WESTERN NETHERLANDS BETWEEN AMSTERDAM AND ROTTERDAM), A SELECTIVE INVESTMENT ARRANGEMENT (SIR) WILL BE USED IMPOSING SPECIAL LEVIES ON NEW INVESTMENTS IN SPECIFIED AREAS. THE LEVIES WILL BE AN

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EXTRA TAX LIABILITY OF 15 PERCENT ON NEW INDUSTRIAL PROPERTY OVER 250,000 GUILDERS AND EIGHT PERCENT ON OPEN AIR INSTALLATIONS OVER 500,000 GUILDERS. NEVERTHELESS, INVESTMENTS IN SUCH AREAS WILL STILL BE ELIGIBLE FOR THE BASIC AND OTHER PREMIUMS (AS APPLICABLE) WHICH WILL OFFSET THE SPECIAL SIR LEVIES AND PROVIDE OVERALL FOR A MODEST TAX CREDIT INCENTIVE, THOUGH IT WILL BE LESS OF AN INCENTIVE THAN IS AVAILABLE FOR INVESTMENTS OUTSIDE THE SIR AREA.

5. DURING PARLIAMENTARY DEBATE, ECONOMIC MINISTER VAN AARDENNE URGED QUICK ENACTMENT OF THE WIR BILL SAYING IT WAS IMPORTANT TO COMMENCE THE FIRST PHASE AS SOON AS POSSIBLE. ACCORDING TO VAN AARDENNE THE WIR IS TO BECOME EFFECTIVE AS OF MAY 23, ALTHOUGH IT HAS NOT YET
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BEEN APPROVED BY THE FIRST CHAMBER. A SECOND PHASE OF THE WIR, INCLUDING NOT YET DEFINED SPECIAL ALLOWANCES FOR ENERGY, ENVIRONMENT, AND INNOVATION GOALS, IS PROPOSED TO BEGIN ON JANUARY 1, 1979.

6. COMMENT: FACING UNEMPLOYMENT LEVELS OVER 200,000 AND THE PROSPECT OF SLUGGISH ECONOMIC GROWTH IN 1978, THE GOVERNMENT WANTED TO ENACT AN INVESTMENT STIMULATING PACKAGE WITHOUT DELAY. THE WIR IN A DIFFERENT FORM HAD BEEN INTRODUCED BY THE PREVIOUS GOVERNMENT, BUT THAT PROPOSAL NOT ONLY MET PARLIAMENTARY OPPOSITION BUT ALSO RAISED DIFFICULTIES WITH EC POLICY AGAINST SPECIAL REGIONAL INVESTMENT SUBSIDIES. AT EC SUGGESTION, THE WIR PROPOSAL WAS AMENDED TO INCREASE THE OVERALL (BASIC) PREMIUM LEVEL WHILE INSTITUTING A PENALTY FOR INVESTMENT IN SPECIFIED OVER-DEVELOPED (SIR) AREAS. THESE ADJUSTMENTS, COMBINED WITH CERTAIN SPECIAL PREMIUMS WILL STILL PERMIT THE GOVERNMENT TO MAINTAIN A DOMESTIC REGIONAL INVESTMENT "STEERING" MECHANISM. THE SIR SYSTEM OF THE CURRENT PROPOSAL WAS CRITICIZED IN PARLIAMENT AS RENDERING THE WIR BILL NOT SUFFICIENTLY "SELECTIVE" TO PERMIT FINE TUNING INVESTMENTS AS DESIRED, AND AS A CLUMSY SYSTEM INVITING ABUSE AND TECHNICAL PROBLEMS. OTHER CRITICS ARGUED THAT UNEMPLOYMENT COULD BE BETTER FOUGHT THROUGH A SYSTEM OF WAGE COST SUBSIDIES RATHER THAN THROUGH AN INVESTMENT CREDIT MECHANISM. AS THE COUNTRY'S RECENTLY DISAPPOINTING ECONOMIC PERFORMANCE HAD CAUSED GROWING POPULAR SUPPORT FOR INVESTMENT STIMULATION, THE GOVERNMENT SUCCESSFULLY COUNTERED ITS CRITICS AND OBTAINED PASSAGE OF ITS VERSION OF THE WIR BILL. THE NEW LAW IS EVEN EXPECTED TO MAKE A HELPFUL CONTRIBUTION TOWARD THE ACHIEVEMENT OF THE THREE PERCENT GNP GROWTH TARGET FOR 1978.

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